

**THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA**

DOCKET NO. 2018-257-WS

IN RE: Application of Kiawah Island Utility,)	DIRECT TESTIMONY
Inc. for Adjustment of Rates and)	
Charges and Modifications to Certain)	OF
Terms and Conditions for the Provision)	
of Water and Sewer Service)	CRAIG SORENSEN

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Craig Sorensen. My principal place of business is 728 Volare Drive,
3 Birmingham, Alabama 35244.

4 **Q. WHAT IS YOUR CURRENT POSITION?**

5 A. I am Managing Director for SouthWest Water Company's business in Alabama and
6 South Carolina. I am also Managing Director at Kiawah Island Utility ("KIU").

7 **Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL**
8 **BACKGROUND.**

9 A. I hold a Bachelor of Science degree in Mining Engineering from the University of
10 Missouri-Rolla and a Master in Business Administration degree from Samford
11 University. I am a licensed Professional Engineer in five states, including South
12 Carolina. My experience includes over 20 years in the water and wastewater industry,
13 from construction to design engineering and large facility project management to utility
14 ownership and management.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 A. The purpose of my testimony is to provide an overview of KIU's request, describe the
3 nature of capital and operational improvements made by KIU since its last rate case,
4 and identify capital improvements anticipated for the near future.

5 **Q. PLEASE SUMMARIZE KIU'S REQUEST.**

6 A. KIU is requesting revenues of \$9,339,061 based on a 14.5% operating margin. This
7 represents an increase of \$825,623 over KIU's proforma test year revenues.

8 **Q. WHAT IS KIU'S REQUESTED REVENUE INCREASE**

9 A. KIU's overall requested rate increase is 9.70%. This increase averages less than 5%
10 per year between the test years for this case and KIU's last case and is less than the
11 increase in the Water and Sewerage Maintenance index, 11.4%, as published by the US
12 Bureau of Labor Statistics across this same time period. Further, the rate increase will
13 be mitigated by a requested average \$1.36 monthly bill credit that will be issued in
14 accordance with KIU's agreement with ORS on how to treat the effects of the Tax Cuts
15 and Jobs Act. This average monthly bill credit will vary based on customer meter size.

16 **Q. WHAT IS THE EFFECT OF KIU'S REQUESTED RATE INCREASE ON**
17 **KIU'S AVERAGE RESIDENTIAL CUSTOMER?**

18 A. A summary of the bill impact for an average residential customer with a 5/8" meter
19 using 11,000 gallons per month is shown below.

Monthly Bill for Residential Customer using 11,000 Gallons			
Class	Meter Size	Current	Requested
Water	5/8"	\$80.60	\$88.64
Sewer	5/8"	\$33.79	\$37.17
Total		\$114.39	\$125.81

1 **Q. IS KIU’S REQUEST JUSTIFIED? PLEASE EXPLAIN.**

2 A. Yes. KIU’s rates were last approved on May 26, 2017, based on a 2015 test year, which
3 is now three years old. Since that time, KIU has made significant investments, incurred
4 various cost increases, and continued to provide outstanding customer service. The
5 proposed rate increase is necessary for KIU to continue providing reasonable and
6 adequate service to its customers, cover its expenses, be permitted an opportunity to
7 earn a reasonable return on its investment, attract capital for future improvements, and
8 comply with the standards and regulations set by DHEC and other environmental
9 regulatory authorities.

10 **Q. WHY IS KIU’S REQUESTED OPERATING MARGIN APPROPRIATE?**

11 A. KIU’s requested operating margin of 14.5%, within the range of operating margins
12 recently granted by the Commission, and we believe it is justified by our quality of
13 service and operations. For instance, the Commission has approved the following
14 operating margins for other water and wastewater utilities: 14.99% for Moore Sewer
15 (Order No. 2018-445); 15% for Palmetto Utilities, Inc. (Order 2018-155); 14.60% for
16 Daufuskie Island Utility Company (Order 2018-68), 14.99%; 16.96% for Palmetto
17 Wastewater Reclamation (order 2014-752), and 17.98% for Palmetto Utilities (Order
18 2013-660).

1 **Q. PLEASE DESCRIBE THE CAPITAL IMPROVEMENTS MADE TO THE**
2 **WATER AND SEWER SYSTEMS SINCE KIU'S LAST GENERAL RATE**
3 **CASE.**

4 A. KIU has made several capital improvements since the last filing. In addition to
5 replacing major service pumps and motors, we purchased two new work trucks, a
6 backhoe, ditch witch, valve operator, portable diesel pump, portable generator and light
7 tower, and a wellpoint system, upgraded our SCADA operational control system, and
8 replaced numerous pieces of equipment. We also paid some trailing costs associated
9 with the secondary supply pipeline project which included contractor retainage and
10 restoration work needed to completely return all sites affected by the project to their
11 original condition or better. The work was coordinated with the Kiawah Island
12 Architectural Review Board to meet all standards and expectations of the residents.

13 Additionally, we upgraded KIU's Information Technology systems which
14 provided significant improvements in cybersecurity, data protection, customer payment
15 options, and customer self-service. SouthWest's Vice President of Information
16 Technology formed a relationship with the FBI Cyber Task Force and is applying his
17 experience and knowledge gained to help safeguard both customer and business data.
18 This includes improving technology surrounding both computer hardware and network
19 assets. All our customers now have the ability to establish recurring credit or debit card
20 payments, allowing them to establish autopayments, which is especially convenient for
21 KIU's large customer base that owns multiple homes. We also added the ability for all
22 customers to schedule and make one-time payments via ACH transfer online or by our

1 toll-free telephone number. All customers can now view their account history and
2 balances online.

3 **Q. WHAT EFFECTS HAVE THESE IMPROVEMENTS HAD ON KIU'S**
4 **OPERATIONS AND SERVICE?**

5 A. The expenditures have yielded positive effects on KIU's continuing ability to provide
6 excellent service. The rolling stock purchased since the previous filing replaced
7 equipment that was old and beyond its life cycles. As KIU continues to equip its staff
8 with tools that enhance their ability to complete more timely responses, they can better
9 provide the high level of customer service expected by our customers. Aging
10 equipment has potential for creating delays and unsafe working conditions, which are
11 unacceptable to KIU and its customers. Our employees are our most valuable asset –
12 providing them with critical equipment readily available is paramount. KIU's last Lost
13 Time Incident was in June of 2016, which reflects these continuing investments and
14 ongoing training.

15 **Q. WHAT IS THE STATUS OF THE SECOND PIPELINE APPROVED IN KIU'S**
16 **PREVIOUS RATE CASE?**

17 A. The secondary water supply pipeline previously approved is in service and providing
18 great benefit to KIU's customers. This redundancy has enabled KIU to continue to
19 provide water service, even on occasions when the original supply line developed leaks
20 or was taken down for repairs. Since the secondary line was placed in service, there
21 have been five major leaks on the original supply line. Without the secondary supply

1 line, these leaks would have otherwise affected KIU's ability to provide water to
2 customers.

3 Additionally, in July 2018, the Charleston Water System experienced a failure
4 that restricted water supply to John's, Seabrook, and Kiawah islands. Without the
5 second line in place, Kiawah's water supply would have been even more limited.
6 Fortunately, we were able to maintain the system in spite of reduced flows through the
7 supply points for both the original and secondary water supply lines. With the second
8 supply line connected to a different area of our supplier's system, KIU's supply is
9 further protected against supply disruptions caused by breaks or other issues from
10 within our water provider's system.

11 **Q. IS THE PIPELINE PROJECT FINISHED?**

12 A. Construction of the second pipeline is finished. However, KIU is in litigation with the
13 directional drilling contractor regarding the project. No expenses associated with the
14 litigation are included in this filing.

15 **Q. WHAT CAPITAL IMPROVEMENTS DOES KIU ANTICIPATE NEEDING IN**
16 **THE NEAR FUTURE?**

17 A. KIU staff continually evaluates the needs of the utility and how to improve customer
18 service. Along with various routine capital replacements and improvements (e.g. line
19 repairs, pumps, motors, rolling stock, etc.), KIU's master plan calls for connecting
20 certain portions of the existing water distribution system so that more KIU customers
21 are protected against future on-island supply line breaks. We are also in the early stages
22 of evaluating the costs and benefits of replacing old meters with "smart meters" that

1 would give customers more control over their water supply. Smart meter functionality
2 has been requested by many of our customers, who have suggested KIU catch up with
3 current technology.

4 **Q. HAS KIU BEEN NOTIFIED OF ANY FUTURE INCREASE TO WATER**
5 **COSTS?**

6 A. Yes, KIU was notified by its potable water supplier, St. Johns Water Company, Inc.,
7 that the cost of water will increase by \$0.11 per thousand gallons beginning on
8 March 1, 2019. The notification letter was received by KIU on November 21, 2018,
9 subsequent to the filing of KIU's Rate Application.

10 **Q. IS KIU REQUESTING TO RECOVER THE INCREASED WATER COST IN**
11 **THIS RATE CASE?**

12 A. No. Because KIU was not made aware of the cost increase until after KIU's
13 Application was filed, KIU will not seek recovery of the cost increase as part of this
14 rate case. In a separate filing, KIU will notify the Public Service Commission as
15 required in the Purchased Water Adjustment provision of its tariff approved in Order
16 No. 2017-277(A) and implement this increase beginning May 1, 2019. In doing so,
17 Kiawah is forgoing the recovery of the cost increase for two months.

18 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

19 A. Yes, it does.